

**COMPENSATION BOARD
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE PERIOD
JANUARY 1, 2000 THROUGH DECEMBER 31, 2001**



AUDIT SUMMARY

Our audit of the Compensation Board for the period January 1, 2000 through December 31, 2001, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in internal controls; and
- no instances of noncompliance that are required to be reported.

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May 23, 2002

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Compensation Board** for the period January 1, 2000 through December 31, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

The Auditor of Public Accounts is an ex-officio member of the Compensation Board. He has knowledge of the relevant reporting requirements and generally accepted government auditing standards. This audit has been conducted in accordance therewith, and, in the opinion of management, his independence has not been compromised, as he neither directly nor indirectly participated in the audit, nor did he instruct the auditors in any manner as to the conduct of the audit.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Board's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Board's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Expenditures
- Revenues
- Information Systems

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We

performed audit tests to determine whether the Board's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Board's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Board records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 6, 2002.

AUDITOR OF PUBLIC ACCOUNTS

JMS:aom
aom:22

AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

The Compensation Board consists of the Auditor of Public Accounts and the State Tax Commissioner as ex-officio members, and one member appointed as Chairman by the Governor. The Compensation Board has responsibility for:

- Determining the state's share of Constitutional Officers' (county and city Sheriffs, Treasurers, Commissioners of Revenue, Commonwealth's Attorneys, and Clerks of the Circuit Court) budgets and reimbursing localities for Constitutional Officers' salaries and expenses.
- Reimbursing local governments and regional jails for the state's share of holding inmates and reporting weekly on jail population.
- Administering the Technology Trust Fund to reimburse Clerks of the Circuit Court for automation of land records.
- Providing an annual report of the Courts and Commonwealth's Attorneys collection of court fines and fees.
- Issuing an annual report of jail revenues and expenditures for all local and regional jails and jail farms that receive Compensation Board funding.

Agency Programs and Funding

State Network Interface Project

The Board reimburses localities for constitutional officers and their employees' salaries and expenses. The State Network Interface Project (SNIP) is an information system that allows localities to enter budget information and make reimbursement requests. The Board then uses SNIP to calculate and generate vouchers and transmit payment information to the Department of Accounts to reimburse localities. The following table shows fiscal years 2000 and 2001 SNIP disbursements.

	<u>2000</u>	<u>2001</u>
Sheriffs & Regional Jails	\$ 292,983,970	\$ 315,690,906
Commonwealth's Attorneys	42,638,431	45,292,667
Circuit Court Clerks	36,851,155	38,611,943
Treasurers	22,865,951	23,888,749
Commissioners of Revenue	<u>17,113,163</u>	<u>17,660,416</u>
Total	<u>\$ 412,452,670</u>	<u>\$ 441,144,681</u>

Local Inmate Data System

The Board also reimburses local governments and regional jails for the state's share of expenses for housing inmates. Virginia's local and regional jails, and jail farms use the Board's Local Inmate Data System

(LIDS) to maintain and report various inmate data. The Board's primary means of paying for prisoners uses several per-diem amounts, which require the actual reporting of prisoners. To test the accuracy of reported prisoner populations, the Board has auditors who verify the information submitted by jails in the Local Inmate Data System. In the past, the Board's auditors have identified inaccurate classification and reporting of prisoners by local and regional jails resulting in monetary recoveries. According to the agency, recoveries for the audit period totaled \$261,000.

Compensation Board Operations

During fiscal years 2000 and 2001, the Board's total operating costs were \$1,583,317 and \$1,590,695 respectively. Over 90 percent of the Board's expenses were for personal services and contractual services. The remaining operating expenditures paid for supplies, continuous charges, and equipment.

The Board's responsibilities are funded primarily from General Fund Appropriations. The following table summarizes the general fund financial activity for fiscal years 2000 and 2001.

	<u>2000</u>	<u>2001</u>
General fund appropriations	<u>\$ 493,544,228</u>	<u>\$ 516,987,554</u>
Expenses:		
SNIP disbursements	\$ 412,452,670	\$ 441,144,681
LIDS disbursements	53,354,220	61,999,913
Assistance to localities	4,713,472	4,881,950
Board operating expenses	<u>1,583,317</u>	<u>1,590,695</u>
Total expenses	<u>472,103,679</u>	<u>509,617,239</u>
Excess of appropriations over expenses	<u>\$ 21,440,549</u>	<u>\$ 7,370,315</u>

Other Programs

Clerk's Fees

Clerks of the Circuit Court deposit clerks' fees to the General Fund of the Commonwealth weekly. The Board uses these funds to reimburse localities for the clerk's operating expenses. During fiscal years 2000 and 2001, clerk's fees deposited totaled \$46,806,421 and \$49,594,762 respectively. The Board returns two-thirds of any excess fees collected over clerk operating costs to localities. These payments totaled \$11,079,380 in 2000 and \$11,208,204 in 2001.

Technology Trust Fund and Fees

Circuit court clerks assess a three-dollar fee on each land transaction in their court. The money collected is deposited in the Technology Trust Fund, which the Board administers to reimburse localities for the costs of computerizing the court's land records. Deposits into the Technology Trust Fund totaled \$10,173,810 during fiscal years 2000 and 2001. During the same period, the Board disbursed \$7,283,462 from the fund.

Annual Reports

Unpaid Fines and Costs

In accordance with §19.2-349 of the Code of Virginia, the Board issues an annual report that shows the collection efforts of court-ordered fines and fees in the Commonwealth by the Clerks of Courts and Commonwealth's Attorneys.

Jail Cost Report

The Jail Cost Report contains a brief profile of each facility and its operating environment. It also shows the sources of funds and types of expenditures used to operate the Commonwealth's jails. The Board and jails use this report when analyzing funding requests and making decisions. The Board is responsible for the accuracy of all data reflected in the Jail Cost Report. The latest report, which covers fiscal year 2000, includes historical data and trends. The Board is currently compiling information for the 2001 Report.

COMPENSATION BOARD
Richmond, Virginia

June Funkhouser, Chairman

Walter J. Kucharski, Ex Officio

Danny M. Payne, Ex Officio

Bruce W. Haynes, Executive Secretary